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TAGS: [ECON](#) [EFIN](#) [EIND](#) [EINV](#) [ELAB](#) [ENRG](#) [KFLU](#) [SP](#)
SUBJECT: MADRID ECONOMIC WEEKLY, JUNE 29-JULY 2

REF: A. MADRID 613
[B. MADRID 571](#)
[C. MADRID 497](#)
[D. MADRID 469](#)

Contents:

ENRG: GOS Extends Garona Nuclear Plant License by 2 Years
ELAB: Unemployment Falls for Second Month
ECON: Headline Inflation Rate Hits New Low Despite Apparent
June Price Rise
EFIN: Nation's Total Foreign Debt Reaches Record High
EFIN: Bank Rescue Fund Spurs Caja Merger Negotiations
EIND: Auto Sales To Individuals Rise for First Time in 31
months
ENRG/EINV: Reduced Solar PV Electricity Tariffs Still
Attractive
KFLU: First H1N1 Death in Spain

GOS Extends Garona Nuclear Plant License by 2 Years

1.(U) Industry Minister Sebastian announced July 2 that the GOS would extend the operating license of the Garona nuclear power plant by two years until 2013. The Nuclear Security Commission had recommended in June that the license be extended for ten years (ref B), but President Zapatero and the ruling PSOE had campaigned on a promise not to extend nuclear plant licenses beyond plants' useful lives, generally assumed to mean their original 40-year licenses. PSOE officials described the decision as establishing a definite date for closing the plant, but the extension means the plant will continue operating after the next national elections, meaning that a future government could revise the decision should it choose to do so. Comment: The decision may wind up satisfying neither side of the contentious debate. The extension may have been motivated in part by concerns over causing more job losses -- even two years from now -- at a time when unemployment is over 18 percent. (Europa Press, 7/2).

Unemployment Falls for Second Month

2.(U) The number of registered unemployed fell by 55,000 in June, the second consecutive monthly decline after 14 consecutive increases. While a Labor Ministry statement hailed this as very good news and noted that it was the largest decrease registered in June since 2001, a press report noted that unemployment typically falls in June because of temporary summer hires. The government's municipal infrastructure spending also was cited as responsible for some of the decline. (Labor Ministry

statement, 7/2; El Pais, 7/2; Europa Press, 7/2)

Headline Inflation Rate Hits New Low Despite Apparent June Price Rise

3.(U) Preliminary June CPI figures indicate that the twelve-month inflation rate (June 2009 prices compared to June 2008 prices) was negative 1%, the lowest rate in the indicator's history. Comment: It appears that prices rose by about 0.5% in June and that the year-on-year rate declined only because prices had risen by 0.6% in June 2006 as oil prices neared their peak. There is still little evidence of deflation in the first six months of this year, and we expect the twelve-month rate to stop declining in the coming months. (National Statistics Institute, 6/29)

Nation's Total Foreign Debt Reaches Record High

4.(U) Spain's foreign debt surpassed 1.7 trillion Euros for the first time in the first quarter of 2009. Since 2005, Spain's foreign debt has increased by 75% and now represents 165% of total GDP. The majority of the debt is owed by banks and other financial institutions, rather than by the government. Comment: These Bank of Spain foreign debt figures include both private and public debt. (El Confidencial, 7/1)

Bank Rescue Fund Spurs Caja Merger Negotiations

5.(U) Last week's approval by the Council of Ministers of the FROB bank rescue fund (ref A) has sparked increased negotiations for mergers involving troubled savings banks ("cajas"). The Bank of Spain is meeting with officials of various cajas, and it seems likely that several small cajas in Catalonia will merge into two new ones. (El Pais, 6/29-7/1; El Confidencial, 6/27-7/1)

Auto Sales To Individuals Rise for First Time in 31 months

6.(U) Automobile sales to private individuals rose in June on a year-to-year basis for the first time in 31 months, up 14% compared to June 2008 thanks to government and manufacturer incentives (refs C-D). Private individuals account for almost two-thirds of the car market in Spain, leading to optimism among industry officials that the car market is finally beginning to turn around. However, sales to businesses and rental companies have continued to decline significantly, and total vehicle sales for the month were down 16% from their level of a year ago. This decline is

still not as bad as the rates of over 40% seen in previous months. (El Pais, 7/2).

Reduced Solar PV Electricity Tariffs Still Attractive

7.(U) Despite a 25% drop in guaranteed prices since last September and a significant change in the registration system, the Ministry of Industry, Tourism and Commerce has received thousands of proposals for new solar photovoltaic (PV) power projects this year. The previous system guaranteed very high prices ("feed-in tariffs") of over 40 cents/KwH for the lifetime of any PV projects connected to the grid by September 29, 2008. This resulted in nearly 2,000 MW of new capacity -- four times the amount projected -- at great expense to ratepayers, over whom the cost of high tariffs paid to these projects is averaged. The new system calls for firms to apply for registration before beginning their investments and provides tariffs that average around 30 euro cents/KwH for different sizes and types of projects (ground-based, roof-based, etc.). Once a certain amount of projects is reached, the Ministry reduces prices paid to future projects. The first three sets of approvals this year saw a total of over 1,700 projects approved, including almost 600 announced this week that will provide almost 130 MW of generating capacity. In the next round, the Ministry will maintain tariffs for roof-based systems -- the quota for which has not been reached -- and lower them slightly. from 29.9 cents/KwH to 29.1 cents/KwH, for ground-based systems. Comment: While costs and tariffs are coming down, they are

still far above costs for non-solar types of generation.
(Ministry Statement, 7/1)

First H1N1 Death in Spain

8.(U) The Spanish government has confirmed the first fatality in Spain from the H1N1 virus. A 20-year-old Moroccan woman died June 30 from an H1N1-related respiratory virus. The victim, 26 weeks pregnant, had delivered her baby by cesarean section the previous day; the baby is believed to be healthy, though doctors remain cautious. There are currently 717 confirmed H1N1 cases in Spain. (Health Ministry statement, 6/30, All media, 7/1)

CHACON